

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 NEA-06 ARA-06 EA-06 EUR-08 AF-04

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 8724

INFO AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY TRIPOLI

AMEMBASSY QUITO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY VIENNA

C O N F I D E N T I A L TEHRAN 9018

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJ: NIOC/CONSORTIUM TALKS ON BALANCING MARGIN: AN NIOC VIEW

REF: A. TEHRAN 8891 B. TEHRAN 8632 C. TEHRAN 8495

1. SUMMARY: NIOC SOURCE GAVE EMBOFF SHARPLY DIFFERENT ACCOUNT OF REASON SUBJECT TALKS WERE SUSPENDED. SOURCE CLAIMED NIOC AND CON-SORTIUM MEMBERS AGREED ON \$4.50 PROVISIONAL BALANCING MARGIN, BUT TALKS BROKE DOWN OVER ISSUE OF INTEREST ON RETROACTIVE PAYMENTS. ON LATTER ISSUE, IRANIAN TEAM WAS CONVINCED CONSORTIUM MEMBERS CONFIDENTIAL

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WERE LYING WHEN THEY CLAIMED NOT TO HAVE PAID SUCH INTEREST ELSE-

WHERE: NIOC, SAID SOURCE, HAS COPY OF AGREEMENT SIGNED BY BP AND GULF IN KUWAIT, UNDER WHICH SUCH INTEREST IS TO BE PAID. END SUMMARY.

2. NIOC INSIDER, WHO WAS PRESENT AT TALKS WITH CONSORTIUM ON BALANCING MARGIN, GAVE US ACCOUNT OF TALKS AND OF REASON THEY BROKE DOWN THAT DIFFERS CONSIDERABLY FROM CONSORTIUM MEMBERS' VERSION. SOURCE SAID THAT DURING FIRST SESSION OF TALKS, NIOC TEAM ADJOURNED TO ANOTHER ROOM AND DECIDED THAT PROVISIONAL BALANCING MARGIN SHOULD BE AROUND \$4.80 OR \$4.90 (VS PRESENT LEVEL OF \$3.50). REZA FALLAH THEN SAID HE WOULD ASK FOR \$4.90 RPT \$4.90. THE TEAM THEN RETURNED TO CONFERENCE ROOM, WHEREUPON FALLAH SAID "WE WANT \$4.70 RPT \$4.70." MANSON (GENERAL MANAGER OF CONSORTIUM IN LONDON), SAID SOURCE, REPLIED THAT THIS WAS TOO HIGH AND ASKED FOR \$4.50. THE TWO DELEGATIONS AGREED ON THIS FIGURE AS PROVISIONAL LEVEL, BUT NIOC SAID THAT AFTERWARD, IF 94.846 PERCENT OF POSTED PRICE TURNED OUT TO BE EFFECTIVE GOVERNMENT SALES PRICE FOR THIRD QUARTER, CONSORTIUM MEMBERS WOULD, OF COURSE, HAVE TO MAKE UP THE DIFFERENCE.

3. TALKS BROKE DOWN, SOURCE SAID, SOLELY OVER ISSUE OF WHETHER INTEREST SHOULD BE PAID ON RETROACTIVE PAYMENTS. THIS ISSUE TOOK UP ENTIRE MORNING ON SECOND DAY OF TALKS. CONSORTIUM MEMBERS INSISTED THEY COULD NOT POSSIBLY AGREE TO SET SUCH A PRECEDENT ANYWHERE. NIOC TEAM, PARTICULARLY PARVIZ MINA, BECAME FURIOUS BECAUSE THEY FELT MEMBERS WERE LYING TO THEM: SOURCE SAID MINA READ MEMBERS AN AGREEMENT ALLEGEDLY SIGNED BY BP AND GULF IN KUWAIT, IN WHICH THEY UNDERTOOK TO PAY SUCH INTEREST, (SEE REF B, PARA 1).

4. ACCORDING TO SOURCE, MINA WENT TO BRIEF AMOUZEGAR ON MORNING SESSION AFTER TALKS BROKE FOR LUNCH. WHEN MEETING RECONVENED IN AFTERNOON IN AMOUZEGAR'S OFFICE, FALLAH STOOD UP AND GAVE WHAT SOURCE DESCRIBED AS "UNRECOGNIZABLE" ACCOUNT OF MORNING SESSION TO AMOUZEGAR, SAYING, FOR INSTANCE, THAT THERE WAS A PROBLEM ABOUT "INTEREST RATES" (RATHER THAN OF WHETHER INTEREST SHOULD BE PAID AT ALL). AMOUZEGAR, OFTEN SHOUTING, ACCUSED COMPANIES OF LACK OF GOOD FAITH AND OF FAVORING ARABS AT IRAN'S EXPENSE. HE RAGED AT MEDIA'S PORTRAYAL OF HIMSELF AS GREED PRICE RAISER AND YAMANI AS STATESMAN WHO WANTS LOWER PRICES. SOURCE SAID AMOUZEGAR REPEATEDLY SAID TO MEMBERS, "I WANT YOU TO QUOTE ME. BY ORDER OF H.I.M., I DO NOT WANT OIL PRICE TO RISE BY ONE CENT." AMOUZEGAR ALSO RAILED AT

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MEMBERS' ARGUMENT THAT THEY HAD NOT BEEN EMPOWERED TO DISCUSS THE INTEREST ISSUE AND SAID IN EFFECT "NEXT TIME I DON'T WANT TO DEAL WITH JUNIOR CLERKS."

5. EMBOFF CHECKED ABOVE ACCOUNT WITH CONSORTIUM REP, VARIAN (PROTECT), WHO CONFIRMED THAT AGREEMENT IN PRINCIPLE HAD BEEN REACHED ON \$4.50 BALANCING MARGIN, RETROACTIVE TO JANUARY 1, 1974, BUT SAID SOME NIOC SPOKESMAN HAD CONTINUED GOING BACK TO THE \$4.70

FIGURE FIRST MENTIONED BY FALLAH. VARIAN SAID ISSUE OF EVALUATING ENTIRE 60 PERCENT OF GOVERNMENT CRUDE AT 94.846 PERCENT OF POSTING WAS MUCH ON MEMBERS' MIND AFTER AMOUZEGAR'S LECTURE BECAUSE AMOUZEGAR HAD DENOUNCED AT LENGTH COMPANIES' ARGUMENT THAT KUWAIT'S 94.846 PERCENT BUYBACK PRICE HAD NOT IN FACT APPLIED TO WHOLE GOVERNMENT SHARE SINCE GOK HAD BEEN UNABLE TO SELL 500,000 B/D AT THIS PRICE AND HAD SHUT IT IN. ON SUBJECT OF INTEREST PAYMENTS VARIAN NOTED THAT MEMBERS REPS HAD NOT BEEN EMPOWERED TO DISCUS INTEREST PAYMENTS BECAUSE NIOC HAD SPRUNG THE ISSUE ON THEM AFTER THEY ARRIVED IN TEHRAN. REGARDLESS OF NIOC'S INABILITY TO BELIEVE OIL COMPANIES DO NOT COORDINATE PERFECTLY, HE SAID, MEMBERS HAD NOT BEEN ACQUAINTED WITH "DOCUMENTS" THAT ALLEGEDLY PROVIDED FOR INTEREST PAYMENTS. PRESUMABLY, CONSORTIUM TEAM THAT IS ARRIVING OCTOBER 28 TO RESUME TALKS WILL COME BETTER ARMED. MAIN PROBLEM, VARIAN COMMENTED, IS THAT NIOC AND AMOUZEGAR DO NOT WANT, IN ACCORDANCE WITH TERMS OF MFN LETTER, TO ACCEPT EQUALITY WITH "THE BEST AGREEMENT" IN THE GULF, BUT WANT TO SELECT THE BEST FEATURES OF EACH OF THE OTHER AGREEMENTS, E.G., MATCHING BUYBACK PRICE FROM KUWAIT WITH BUYBACK VOLUMES ELSEWHERE.

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